

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: The Respite Inn (“RI”) 906 Lee Lane Concord, California 94518 Contra Costa County</p> <p>Project Site: Same As Above</p> <p>Facility Type: Adult Residential for Developmentally Disabled</p> <p>Eligibility: A community care facility for developmentally disabled individuals pursuant to Government Code section 15432(d)(13)</p> <p>Prior HELP II Borrower: No</p>	<p>Amount Requested: \$75,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: January 27, 2011</p> <p>Resolution Number: HII-262</p>
--	--

Background: RI is a 501(c)(3) nonprofit corporation located in Concord, California. RI provides emergency and planned respite services to minors and adults with severe developmental disabilities. RI’s mission is to support families in their commitment to maintain family members with developmental disabilities in their own home, by giving them periodic breaks from caretaking responsibilities. Since opening in 1990, RI has served over 700 individuals throughout Northern California from Contra Costa and Alameda counties.

Uses of Loan Proceeds: Loan proceeds will be used to refinance debt existing on RI’s single family dwelling. The current mortgage has a fixed interest rate of 8.125%, thus RI will save approximately \$36,000 over the life of the loan (comparing a 15-year fixed interest rate of 3% versus 8.125%).

Financing Structure

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$518 (yearly payments of approximately \$6,216).
- Corporate gross revenue pledge.
- First (1st) lien position on property located at 906 Lee Lane, Concord, California 94518
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 13%).

Financial Overview: RI’s income statement appears to exhibit steady operating results during a three-year review period, with near break-even results in all years. RI appears to have very good liquidity and minimal long-term debt. The proforma debt service coverage ratio is a solid 5.24x, indicating RI should comfortably be able to repay the proposed HELP II loan.

Estimated Sources of Funds:

HELP II Loan	\$75,000
Borrower Funds	<u>78,738</u>
Total Sources	<u>\$153,738</u>

Estimated Uses of Funds:

Refinance real property debt	\$150,000
Financing costs	<u>3,738</u>
Total Uses	<u>\$153,738</u>

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Community Service Obligation, Seismic and CEQA documentation. All documentation satisfies the Authority’s requirements.

Parties of Interest: *(Included for the purpose of discerning conflicts of interest)*
Chase Bank

Staff Recommendation: Staff recommends approval of Resolution Number HII-262 for the Respite Inn, in an amount not to exceed \$75,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst concurs with the Authority’s staff recommendation.

I. PURPOSE OF FINANCING:

RI seeks to refinance an existing residential care home to improve its cash flow and keep the monthly payments relatively low. The refinance will save RI approximately \$36,000 in interest expense over the life of the new loan.

***Refinance real property debt*..... \$150,000**

RI intends to refinance an existing loan of \$150,000 with Chase Bank. RI intends to use \$78,000 of its reserve funds to pay down the balance of the existing loan and to obtain a HELP II loan from the Authority in the amount of \$75,000. The original loan was obtained in March 1998 and was used for the acquisition of the current RI location at 906 Lee Lane, Concord, California. This loan has a current fixed interest rate of 8.125% and is secured by the aforementioned real property. The facility is used as a developmental disability facility for minors and adults.

The proposed HELP II loan will be secured by a first (1st) lien position on the real property located at 906 Lee Lane, Concord, California 94518, which management indicates has an estimated current market value of \$600,000, resulting in a moderate loan to value ratio of 13%. The property is a single family home with 2,683 square feet and is located on an acre lot.

***Financing Costs* 3,738**

Authority Fees.....	\$ 938
Appraisal.....	800
Title and Escrow	<u>2,000</u>

***Estimated Uses of Funds* \$ 153,738**

II. FINANCIAL STATEMENTS AND ANALYSIS

The Respite Inn Statement of Activities (Unrestricted)

	For the year ended July 31		
<u>SUPPORT, REVENUE & GAINS</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Fees and grants from governmental agencies	\$ 353,902	\$ 420,406	\$ 423,012
Contributions	39,666	10,865	23,886
Private fees	-	561	374
Miscellaneous	3,234	3,569	6,528
Interest	519	1,104	2,200
Total support, revenue and gains	<u>397,321</u>	<u>436,505</u>	<u>456,000</u>
<u>EXPENSES</u>			
Salaries and related expenses	281,502	304,885	290,453
Depreciation	32,233	33,010	32,123
Programs expenses and supplies	23,090	26,669	27,096
Repairs and maintenance	17,979	14,197	18,541
Interest	12,567	12,860	13,130
Insurance	9,878	12,252	26,077
Worker's compensation	7,968	11,224	9,984
Other	7,914	8,240	9,543
Utilities	7,324	6,035	5,801
Professional services	3,530	2,000	3,130
Telephone	3,527	2,719	3,908
Training	2,036	4,275	2,501
Total expenses	<u>409,548</u>	<u>438,366</u>	<u>442,287</u>
Income(Loss) from operations	(12,227)	(1,861)	13,713
Net assets, beginning of year	<u>402,863</u>	<u>404,724</u>	<u>391,011</u>
Net assets end of year	<u>\$ 390,636</u>	<u>\$ 402,863</u>	<u>\$ 404,724</u>

**The Respite Inn
Statement of Financial Position**

	As of July 31		
	2010	2009	2008
<u>Assets</u>			
Current Assets:			
Cash and cash equivalent	\$ 243,827	\$ 218,365	\$ 200,366
Accounts receivable	36,394	45,290	38,229
Prepaid expenses	164	241	1,766
Total Current Assets	<u>280,385</u>	<u>263,896</u>	<u>240,361</u>
Property and equipment	593,772	591,667	591,667
Less accumulated depreciation	<u>(304,899)</u>	<u>(272,666)</u>	<u>(239,656)</u>
Total Assets	<u><u>\$ 569,258</u></u>	<u><u>\$ 582,897</u></u>	<u><u>\$ 592,372</u></u>
<u>Liabilities & Net Assets</u>			
Current Liabilities:			
Accounts payable	\$ 1,835	\$ 1,775	\$ 2,415
Salaries and payroll taxes payable	13,518	13,097	12,996
Accrued vacation	10,667	8,795	12,398
Current portion on mortgage payable	<u>4,082</u>	<u>3,765</u>	<u>3,472</u>
Total Current Liabilities	30,102	27,432	31,281
Mortgage payable, less current portion	<u>148,520</u>	<u>152,602</u>	<u>156,367</u>
Total Liabilities	<u>178,622</u>	<u>180,034</u>	<u>187,648</u>
Net Assets:			
Unrestricted	<u>390,636</u>	<u>402,863</u>	<u>404,724</u>
Total Liabilities & Net Assets	<u><u>\$ 569,258</u></u>	<u><u>\$ 582,897</u></u>	<u><u>\$ 592,372</u></u>

Financial Ratios:

	Proforma (a)			
	<u>FYE July 31, 2010</u>			
Debt Service Coverage (x)	5.24	1.99	2.69	3.61
Debt/Unrestricted Net Assets (x)	0.19	0.38	0.38	0.39
Margin (%)		(3.08)	(0.43)	3.01
Current Ratio (x)		9.31	9.62	7.68

(a) Recalculates 2010 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

RI's income statement appears to exhibit stable and consistent operations with near break-even results.

Particular facts to note:

- During the review period, RI operated at near break-even operations with positive cash flow.
- During FY 2010 RI's main revenue stream of fees and grants from governmental agencies appears to have decreased, resulting in an operating loss of approximately \$12,000. However, RI's debt service coverage ratio is still solid at 1.99x. To offset this revenue decline, RI has cut expenses and is focused on holding fundraising events. In September 2010, RI raised approximately \$17,000 from a fundraiser. RI has plans to continue holding such events to improve RI's cash flow.
- RI's management indicates that the operating cash flow for the interim period ending December 31, 2010 has improved compared to the period ending December 31, 2009.

Financial Discussion – Statements of Financial Position (Balance Sheet)

RI's balance sheet appears to indicate stability.

Particular facts to note:

- RI's cash position is very strong, with \$243,000 in cash as of July 30, 2010, which provides a solid six months of operating cash reserve.
- RI's cash position is so strong that they could pay the loan in full with their cash position, but RI's management believes it prudent, during current economic times, to maintain a healthy cash reserve.
- RI has minimal leverage with only one long-term debt of approximately \$151,000 and unrestricted net assets of \$390,000, resulting in a debt to unrestricted net assets of .38x., nicely below the Authority's target ratio of less than 1.0x.
- The proforma debt to unrestricted net assets ratio is a very modest .19x. The current DSC is 1.99x, while the proforma debt service coverage ratio improves to a very solid 5.24x, indicating RI should comfortably be able to repay the HELP II loan.

EXHIBIT 1

UTILIZATION STATISTICS

**Clients Served/ (Patient Visits)
Fiscal Year Ended July 31,**

	2010	2009	2008
Totals	97/ (1,164)	94/ (1,110)	112/ (988)

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of July 31, 2010</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
Chase Bank, 1998	183,300	\$151,613	0
Proposed:			
CHFFA, HELP II 2011			\$75,000
TOTAL DEBT		<u><u>\$151,613</u></u>	<u><u>\$75,000</u></u>

* Includes current portion of long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

RI offers out of home respite care to adults (ages 18 to 59) with developmental disabilities. RI's mission is to support families in their commitment to maintain their family member with developmental disabilities in their own home, by giving them periodic breaks from caretaking responsibilities. RI also enhances the quality of life quality for adults with developmental disabilities by providing the opportunity to experience a more independent living situation outside the home, and providing enriching life experiences in the community as well as the opportunity to develop friendships with peers. RI has been in business since 1990 and only has this one facility.

Licensing:

The Respite Inn is licensed by the California Department of Social Services to operate and maintain an adult residential home for the developmentally disabled located at 906 Lee Lane, Concord, California 94518.